

MAY 02 2006

## NOT FOR PUBLICATION

HAROLD S. MARENUS, CLERK  
U.S. BKCY. APP. PANEL  
OF THE NINTH CIRCUITUNITED STATES BANKRUPTCY APPELLATE PANEL  
OF THE NINTH CIRCUIT

In re: ) BAP No. NC-05-1281-BRyK  
)  
EXCEL INNOVATIONS, INC., )  
) Bk. No. 04-53874  
Debtor. )  
\_\_\_\_\_ )

SOLIDUS NETWORKS, INC.; )  
INDIVOS CORPORATION, )  
)  
Appellants, )

v. ) **M E M O R A N D U M**<sup>1</sup>  
)  
EXCEL INNOVATIONS, INC., )  
)  
Appellee. )  
\_\_\_\_\_ )

Argued and Submitted on March 24, 2006,  
at San Francisco, California

Filed - May 2, 2006

Appeal from the United States Bankruptcy Court  
for the Northern District of California

Honorable Arthur S. Weissbrodt, Bankruptcy Judge, Presiding

Before: BRANDT, RYAN<sup>2</sup> and KLEIN, Bankruptcy Judges.

<sup>1</sup> This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except when relevant under the doctrines of law of the case, res judicata or collateral estoppel. See 9th Cir. BAP Rule 8013-1.

<sup>2</sup> Hon. John E. Ryan, United States Bankruptcy Judge for the Central District of California, sitting by designation.

1 The bankruptcy court granted debtor's motion for limited relief from  
2 the automatic stay of § 362 of the Bankruptcy Code<sup>3</sup> to pursue  
3 certification of an interlocutory appeal of an adverse district court  
4 ruling in federal patent litigation. Appellants then moved for limited  
5 relief from stay to pursue concurrently their motion for terminating  
6 sanctions for debtor's alleged discovery abuses in the same litigation.  
7 The bankruptcy court denied the motion without prejudice, primarily  
8 because debtor did not at that time have counsel to defend the sanctions  
9 motion. This appeal ensued.

10 We conclude that the appeal is moot, and dismiss it.

## 11 12 I. FACTS

13 In July 2003 Excel Innovations, Inc. filed a federal patent  
14 infringement suit against Indivos Corporation and Solidus Networks, Inc.  
15 in U.S. District Court for the Northern District of California (the  
16 "Litigation"). Appellants counterclaimed against Excel, its principal,  
17 Ned Hoffman, and Hoffman's other corporation, Aviv LLC, for declaratory  
18 relief for patent ownership, and for patent infringement regarding the  
19 same 15 patents that are the subject of Excel's claims. Excel moved for  
20 partial summary judgment on the issue of ownership; Appellants cross-  
21 moved for partial summary judgment on the same issue.

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24 <sup>3</sup> Absent contrary indication, all "Code," chapter and section  
25 references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1330 prior to  
26 its amendment by the Bankruptcy Abuse Prevention and Consumer  
27 Protection Act of 2005, Pub. L. 109-8, 119 Stat. 23, as the case from  
28 which the adversary proceeding and these appeals arise was filed  
before its effective date (generally 17 October 2005).

29 All "Rule" references are to the Federal Rules of Bankruptcy  
30 Procedure, and all "FRCP" references are to the Federal Rules of Civil  
Procedure.

1 After argument but before the district court issued its ruling,  
2 Appellants moved for terminating sanctions against Excel, Hoffman, Aviv,  
3 and their counsel, alleging that they had deliberately fabricated,  
4 altered, concealed and destroyed evidence and committed forgery and  
5 perjury. Appellants sought to dismiss Excel's claims, to strike Excel's  
6 answer to their counterclaims, and monetary damages.

7 On summary judgment, the district court ruled in favor of  
8 Appellants, determining that they own the patents at issue, but before  
9 the district court ruled on the sanctions motion, Excel, Hoffman, and  
10 Aviv filed bankruptcy petitions. Excel sought chapter 11 relief, listing  
11 as its primary asset the patents at issue in the Litigation, which it  
12 valued at \$100 million. Upon receiving notice of the bankruptcy filings,  
13 the district court denied Appellants' motion for sanctions without  
14 prejudice.

15 Appellants moved to lift the stay to proceed with Litigation; in  
16 response, Excel requested limited relief to allow it to seek  
17 certification for an interlocutory appeal of the summary judgment. At  
18 the bankruptcy court's invitation, Excel filed a separate motion for  
19 relief from stay, which the bankruptcy court granted. Appellants sought  
20 review; we dismissed that appeal (BAP No. 05-1257) as moot, reasoning  
21 that relief from stay was not necessary to allow the debtor to pursue  
22 pre-petition litigation that would inure to the benefit of the bankruptcy  
23 estate. Rule 6009; Parker v. Bain, 68 F.3d 1131, 1138 (9th Cir. 1995).

24 In the meantime, Appellants moved for limited relief from stay to  
25 proceed with only that portion of their sanctions motion which sought  
26 dismissal of Excel's claims. Excel opposed, and the bankruptcy court  
27 denied the motion without prejudice. The bankruptcy court noted that  
28 debtor did not then have counsel who could defend the sanctions motion,

1 and was concerned that lifting the stay would result in putting debtor  
2 to "death or potential death" because it could not adequately defend.  
3 Transcript, 2 June 2005, pages 3-4. The bankruptcy court rejected  
4 Appellants' argument that the sanctions issue should be decided first as  
5 it could potentially dispose of the case, and noted that Appellants had  
6 made the strategic decision to pursue the merits before filing their  
7 sanctions motion. Id. at 14-15. The court denied relief, without  
8 prejudice, on 21 June 2005, and Appellants timely appealed.

9 On 28 September 2005, the district court denied Excel's FRCP 54(b)  
10 certification motion, stating:

11 [E]quitable considerations do not weigh in favor of a partial  
12 judgment herein, given the very serious allegations raised in  
13 defendants' motion for terminating sanctions, which the Court  
14 is not permitted to address at this time due to the automatic  
stay of those proceedings against Excel, and which ultimately  
could result in the dismissal of plaintiff's infringement  
claims.

15 Order Denying Plaintiff's Motion for Reconsideration, USDC Case No. C-03-  
16 3125-MMC, page 3.

## 17 18 **II. JURISDICTION**

19 The bankruptcy court had jurisdiction via 28 U.S.C. § 1334 and  
20 § 157(b)(1) and (B)(2)(G), and we do, if at all, under 28 U.S.C.  
21 § 158(c).

## 22 23 **III. ISSUES**

- 24 1. Whether we should grant Appellants' request for judicial notice; and  
25 2. Whether the appeal should be dismissed for lack of jurisdiction as  
26 moot.

## IV. DISCUSSION

### A. Judicial Notice

On 10 January 2006 Appellants filed a Request for Judicial Notice, asking us to take notice of three orders entered in the Litigation: (1) the Notice of Reference; Order Denying Without Prejudice Defendants' Motions to Shorten Time & For Expedited Discovery; Order to Hold a Rule 26(f) Conference, entered 29 September 2003; (2) the Order Denying Without Prejudice Motion to Lift Stay and for Entry of Judgment Pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, entered 11 July 2005; and (3) the Order Denying Plaintiff's Motion for Reconsideration, entered 28 September 2005. In addition, Appellants request we take judicial notice of our own order dismissing No. NC-05-1257 as moot. These orders were not before the bankruptcy court when it ruled.

We will deny the motion as to our order, which adds nothing respecting the merits or the analysis of mootness in this appeal, and grant it as to the district court's orders, which are relevant to mootness, addressed below.

### B. Jurisdiction

Although the parties have not questioned it, we must independently determine our jurisdiction. In re Aheong, 276 B.R. 233, 238-39 (9th Cir. BAP 2002).

#### 1. Finality

An order granting or denying relief from stay is normally final and appealable. In re Cimarron Investors, 848 F.2d 974, 975 (9th Cir. 1988). Here, however, the denial was without prejudice, and in fact the

1 bankruptcy judge indicated that he intends eventually to grant stay  
2 relief to Appellants. Transcript, 5 January 2005, page 9.

3 But an order denying relief from stay without prejudice may still  
4 be a final order. In In re CGE Shattuck, LLC, 255 B.R. 334, 336 (1st  
5 Cir. BAP 2000), the court held the order on appeal final because denying  
6 a motion for relief from stay was the equivalent of the imposing of a  
7 preliminary injunction, important rights of the parties might be  
8 preserved or dissipated, and there would be irreparable harm done while  
9 the stay remained in effect, nothing remained for the bankruptcy court  
10 to do, and any change of circumstances would provide a new, independent  
11 ground for relief. Similarly, the court in In re West Electronics, Inc.,  
12 852 F.2d 79, 82 (3d Cir. 1988), following a functional finality approach,  
13 deemed the order denying relief from stay without prejudice final because  
14 it was based on the bankruptcy court's rejection of movant's legal  
15 position, rather than an incomplete record, ongoing discovery, or a need  
16 for further research.

17 The Ninth Circuit follows a pragmatic approach to finality,  
18 emphasizing the need for immediate review rather than whether the order  
19 is technically interlocutory. A bankruptcy order is appealable if it  
20 "resolves and seriously affects substantive rights and . . . finally  
21 determines the discrete issue to which it is addressed." In re Frontier  
22 Properties, Inc., 979 F.2d 1358, 1363 (9th Cir. 1992) (citation omitted).

23 The order here appealed indefinitely prevents Appellants from  
24 pursuing their sanctions motion, thus resolving and seriously affecting  
25 substantive rights. To the extent the order implicitly determined that  
26 the relief they sought was prohibited by the automatic stay, it finally  
27 determined the discrete issue to which it was addressed. Accordingly,  
28 the order is final and appealable.

## 2. Mootness

But an appeal is moot when it is impossible to fashion effective relief. In re Gotcha Int'l, L.P., 311 B.R. 250, 253-54 (9th Cir. BAP 2004). Here, reversal of the order would accomplish nothing: the relief requested by Appellants is not prohibited by the automatic stay, which prohibits the continuation of judicial, administrative, or other proceedings relating to a pre-petition claim against the debtor, § 362(a)(1). But it does not prohibit the debtor from continuing to prosecute a pre-petition claim nor, generally, a defendant from defending against that claim: "The automatic stay should not tie the hands of a defendant while the plaintiff debtor is given free rein to litigate." In re Merrick, 175 B.R. 333, 338 (9th Cir. BAP 1994).

Of course, that an action was initiated by the debtor does not necessarily mean that it is entirely exempt from the automatic stay: where multiple claims and parties are involved, the litigation must be disaggregated to analyze which claims are subject to the stay. Parker, 68 F.3d at 1137; In re Miller, 397 F.3d 726, 731 (9th Cir. 2005). In Parker, the Ninth Circuit concluded that defendant's counterclaim for breach of fiduciary duty, conversion, fraud, and negligent misrepresentation were stayed because it was, from inception, an action against the debtor. 68 F.3d at 1137. In contrast, debtor's appeal from the dismissal of his claim against another defendant was not stayed, as it was "a claim by, not against, the debtor, and its successful prosecution would 'inure to the benefit of the bankruptcy estate.'" Id. at 1138 (citation omitted).

Here, the limited relief requested by Appellants in their terminating sanctions motion is not subject to the automatic stay. It seeks only dismissal of Excel's claims, and is a defense to those claims,

1 the prosecution of which is not stayed. Merrick, 175 B.R. at 338. Our  
2 reversal of an order denying relief from the automatic stay to pursue a  
3 course of action which is not stayed would accomplish nothing: we cannot  
4 grant effective relief.

## 5 6 **V. CONCLUSION**

7 Treating the order on appeal as final, the issues raised in this  
8 appeal are nevertheless moot. Accordingly, we DISMISS the appeal.  
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